CHINA FIBRETECH LTD.

(Company Registration No. 40381)
(Incorporated in Bermuda)

AUDITORS' FINDINGS AND UPDATE ON CUSTOMERS' CLAIMS

The Board of Directors (the "**Board**") of China Fibretech Ltd. (the "**Company**") wishes to announce certain audit findings by its auditors, Messrs RT LLP (the "**Auditors**") and to provide an update on the potential claims by customers (the "**Claimants**") as disclosed in the Company's announcement on 30 November 2015.

UPDATES ON CUSTOMERS' CLAIMS

The Board wishes to announce that the Company had met up with the Claimants once in early Dec 2015 after receiving the written notice on the claims for products delivered in 2014 and early 2015. The Company and the Claimants have agreed to conduct an investigation into the claims and an independent test on products processed by the Company is to be carried out to verify the allegation. With the presence of both the Company and the Claimants, samples of required colours have been selected and sent to independent third parties, CNTAC Testing Center (中国纺织工业联合会检测中心) and SGS-CSTC Standards Technical Services Co., Ltd. (SGS通标标准技术服务有限公司) for testing on 21 March 2016. To-date, the Claimants have not indicated the amount of their losses, have not quantified their claims (either in volume or value) and no physical or documentary evidence have been provided by the Claimants to the Company.

There were no further correspondence between the Company and Claimants since the last meeting. The Management confirmed that they have not admitted to any liability to the Claimants and have not agreed to any form of compensation or settlement with the Claimants. The Management is of the view that investigation has to be conducted to ascertain the facts before having further discussion with the Claimants.

Currently, the Company is in the midst of checking the samples and compiling the relevant documents to determine the cause of the defects (which are not admitted), and whether these are linked to the dying materials used, the dying process, mismatch of dying materials or otherwise. The investigation is currently lead by Mr. Wu Xinhua, Executive Chairman and CEO and Mr. Wu Xinhua will update the Board as and when there is further development of the claims/investigation.

The Company has been transacting with the Claimants for more than 5 years but has since stopped dealing with the Claimants after receiving the written notices of the potential claims.

As at the financial year ended 31 December 2015, the total amount of trade receivables outstanding due from the Claimants is RMB4,477,000. Due to the potential claims from these Claimants, the collectibility of these receivables is now uncertain and the Board will be making the necessary allowance for impairment of these receivables in the accounts for the financial year ended 31 December 2015.

The Management is still in the midst of conducting internal investigation to establish the facts surrounding the allegations and will report to the Board upon completion of its investigation and will then discuss with the Board whether legal counsel should be appointed to handle the potential claims.

The Management has agreed to report to the Board on the status and development of their investigation and seek the Board's approval before taking further action.

The Company will keep shareholders informed of the outcome and the Board will release further announcements as and when there are any developments on the above.

Due to the uncertainties surrounding these claims, trading of the Company's shares will continue to be suspended until further notice to ensure a fair, orderly and transparent market.

Investors are also advised to note the Auditors' findings in connection with this issue as reported below.

AUDITORS' FINDINGS

1. Customers' Claims

The Auditors had requested the management to provide all the supporting documents or correspondence to demonstrate that the Company is in the midst of conducting investigation in relation to the customers' claims. This is in view that Management had on 1 December 2015 represented to the Auditors that Management is currently busy with gathering relevant supporting documents in relation to the customer's claim to the extend that the Auditors are not advised to carry out their interim audit as originally planned on 6 December 2015 due to inadequate manpower for the interim audit. However, to-date, the Auditors were still unable to obtain any supporting documents from the Company's management and no names and designations of personnel involved in the on-going investigation had been furnished by Management to the Auditors, despite several reminders.

Response from the Management

(a) these were carried out under oral instructions and there were no documents to show that the defective products had sent for sample testing and inspection;

(b) the personnel involved in the internal investigation are on Chinese New Year leave and hence unavailable to be interviewed by the authors;

(c) the costs of these testing and inspection of the defective products were not expected to be material.

The Auditors have also reported that they were not given the debtors confirmations in respect of the Claimants to be sent out by the Auditors. To-date, management has still not given the debtors confirmations for the Auditors to send out.

Response from the Management

Management has explained that this was out of concern that certain enquiry in the audit confirmation appeared to presume an admission of liability on the part of the Company as the said audit confirmation to the claimants was tailored to request the claimants to confirm the compensation amount in relation to the customers' claims, which is different from normal audit confirmation to other customers. Hence, it may give an impression that the Company has admitted liability so as to verify and confirm the compensation amount. Subsequently, the Company and the Auditors agreed to use the usual audit confirmation to the claimants.

In addition, the Management has provided the said debtors confirmations to the Auditors and agreed to send out the said debtors confirmations by logistic company arranged by auditors. However, the Auditors was unable to arrange the logistic before the audit engagement team pulled out on 27 January 2016. Subsequent to 27 January 2016, the auditor requested to revisit our Shishi factory with transportation provided by the Company and send out the said debtors confirmation on 30 January 2016. The Company requested the Auditors to arrange the transportation to our Shishi factory by themselves as drivers were on Chinese New Year leave. However, the Auditor disagreed with the arrangement of transportation. Hence, the said debtors confirmations had not been sent out and is currently kept by the Management in order to avoid any actions to be taken by the Auditors as a way of admission of liability in relation to the Customers' Claims.

The Independent Directors have since clarified this with the Auditors and the Management to address these concerns and Management has agreed to provide its full co-operation to facilitate the delivery of these debtors confirmations to the Claimants.

The Auditors have therefore reported to the Independent Directors (the "**IDs**") who are also members of the Audit Committee (the "**AC**") their preliminary findings as follows:

"In view of the limitation of scope imposed by management coupled with the lack of supporting documents from management, we are unable to carry out any alternative procedures to obtain sufficient appropriate audit evidence as required by SSA 500 – Audit Evidence, to satisfy ourselves as to the validity of these 3 customers claims and whether there is any need for the provision of these customers' claims and when or if provided, whether the corresponding expense in relation to the claims in the Group's financial statement are fairly stated for the financial year ended 31 December 2015."

The AC will work with Management and the Auditors to address the issue of the limitation of scope imposed perceived by the Auditors but not in the view of the AC and Management so that the auditors can perform the agreed procedure for the Claimants' claims.

2. Bank confirmation

The Auditors have reported to the IDs who are members of the AC that the Auditors have been unable to obtain bank confirmation on the spot at the Company's principal banker, The Agriculture Bank of China, Shishi Hong Shan Sub-Branch (the "**Bank**") despite two attempts to do so. It was represented to the Auditors by the staff at the Bank that bank confirmations will not be given on the spot but that it would need clearance from its higher authority and be processed by another Sub-Branch at Shishi city before it will stamp and return the bank confirmation to the Auditors, which the Auditors will need to come back to the Bank to collect in 3 to 7 days time. This has been the same procedure when the previous auditors requested for such bank confirmation as represented by both the staff of the Bank and the Management.

As part of additional comfort, the Auditors had requested for random print out of monthly bank statements, which the staff at the Bank had rejected upon verbal instructions from the Management.

Response from the Management

The Management would like to highlight that the false and misleading statements made by the Auditors in which the Auditors claimed that the staff at the Bank had rejected the Auditors' request of printing monthly bank statements upon verbal instructions from the Management. And, there is no evidence provided by the Auditors. In addition, The Management would also like to state the fact that the template of bank confirmation was provided by the Auditor, which include a list of items and procedures to be confirmed by the Bank. The procedures stated in the bank confirmation were agreed by the Company and the Auditor. However, the surprise request of printing monthly bank statements was not one of the procedure stated in the bank confirmation.

Regarding bank confirmation, the Management would also like to emphasize that there is no restriction imposed by the Company or the Management to the Auditor for obtaining bank confirmation on the spot. Officer from the Bank explained to the Auditors that Shishi Hong Shan Sub-Branch of The Agriculture Bank of China needs clearance from its higher authority for bank confirmation which will be processed by another Sub-Branch at Shishi city and its processing time takes 3 to 7 working days. In addition, the Management affirms that this has been the same procedure when the previous auditors and internal auditors requested for such bank confirmation.

The Auditors have therefore reported to the IDs their preliminary findings as follows:

"**We are unable to carry out our audit procedures to obtain sufficient appropriate audit evidence to satisfy ourselves on the existence of bank balances in both the current account and fixed deposits totaling RMB 449,950,310.21 in one of the Group's PRC Bank account.**"

The AC will work with Management and the Auditors to address the issue so that the Auditors can re-perform the bank confirmation and other agreed procedures to satisfy their audit assertion to enable the Auditors to conclude whether the existence of the bank balances.

The Board of Directors will release further announcements as and when there are developments on the above.

BY ORDER OF THE BOARD

Wu Xinhua
Executive Chairman and CEO
8 April 2016